United Nations E/ICEF/2001/AB/L.4

Economic and Social Council

Distr.: Limited
26 December 2000

Original: English

For information

United Nations Children's Fund
Executive Board
First regular session 2001
22-26 January 2001
Item 8 of the provisional agenda*

Establishment of an operational reserve

Report of the Advisory Committee on Administrative and Budgetary Questions

1. The Advisory Committee on Administrative and Budgetary Questions has considered the report of UNICEF on the establishment of an operational reserve (E/ICEF/2001/AB/L.3). During its consideration of the matter, the Committee met with representatives of the Executive Director.

2. As recommended by the Advisory Committee (E/ICEF/1999/AB/L.10, para. 9), the report analyses the advantages and disadvantages of establishing an operational reserve for both regular and other resources, taking into consideration the existing financial management framework and liquidity policy of UNICEF. UNICEF currently manages its spending plans and liquidity requirements without an operational reserve.

3. The UNICEF liquidity policy was last reviewed by the Executive Board in 1987 (E/ICEF/1987/AB/L.9). In accordance with its approved liquidity policy, in order to provide a buffer against future adverse conditions, UNICEF maintains year-end cash balances of regular resources income equal to approximately 10 per cent of the following year regular resources income. The Advisory Committee notes that the UNICEF liquidity policy is limited to regular resources income because other resources income must be self-funding, with the requirement that funds be received prior to UNICEF entering into obligations or expenditures (E/ICEF/2001/AB/L.3, paras. 12-13). Furthermore, the Committee notes that UNICEF pools its financial resources and can make temporary use of up to one half of other resources on hand within a financial period, to offset short-term imbalances between regular resources expenditures funded and regular resources income.

* E/ICEF/2001/2.

00-81394 (E) 020101

4. In this connection, the Advisory Committee notes from paragraphs 20 and 21 of the report that, over the period 1993-1999, the proportion of other resources income to total income has increased as a percentage of total income, with other resources accounting for 47 per cent of total income in 1999. Moreover, other resources income increased by 48 per cent between 1993 and 1999, while regular resources income increased by only 16 per cent. The Committee notes that over this period changes in the composition of regular resources income have been significant. The proportion of regular resources income funded from private sources increased from 19 per cent of regular resources income in 1993 to 34 per cent in 1999.

5. In paragraphs 27 to 32 of the report, the Executive Director presents two alternatives, highlighting the advantages and disadvantages of retaining the current system or establishing an operational reserve. The Executive Director recommends that UNICEF not establish an operational reserve, since in her view UNICEF can continue to manage its short-term liquidity requirements on a cash flow basis, within the existing financial management framework. UNICEF would be further assisted in managing its cash flow requirements with a greater income predictability based on an anticipated improved scheduling of cash transfers from donors on a quarterly rather than annual basis (E/ICEF/2001/AB/L.3, paras. 19, 28 and 33).

6. In light of the rapid changes in the composition and level of UNICEF regular resource income and the anticipated enhancements in the predictability of cash receipts from donors, the Advisory Committee recommends that the Executive Board maintain the issue of establishing an operational reserve under review. The Committee expects to revert to the matter in the context of its review of the biennial support budget of UNICEF for the period 2002-2003.